

LETTER OF UNDERSTANDING
BANKED LEAVE TIME PROGRAM

1. Eligibility.

All probationary and non-probationary employees, including deferred retirement option program participants, shall be required to participate in the Banked Leave Time Program (Program) known as Part B hours under the State's Annual and Sick Leave Program.

2. Definitions and Description of Program.

An employee shall work a regular work schedule, but receive pay for a reduced number of hours. The employee's pay shall be reduced by four (4) hours per pay period. The employee will be credited with a like number of Banked Leave Time (BLT) hours for each biweekly pay period.

3. Hours Eligible for Conversion to Program.

The number of BLT hours for which the employee receives credit shall be accumulated and reported periodically to participating employees. During the term of this Letter of Understanding, an employee shall not be able to accumulate in excess of 208 BLT hours. Accumulated BLT hours shall not be counted against the employee's regular annual leave cap, known as Part A hours under the Annual and Sick Leave Program.

The employee shall be eligible to use the accumulated BLT hours in a subsequent pay period in the same manner as regular annual leave, pursuant to Article 30.

4. Timing of Conversion of Unused Program Hours.

Upon an employee's separation, death or retirement from state service, unused BLT hours shall be contributed by the State to the employee's account within the State of Michigan 401(k) plan, and if applicable to the State of Michigan 457 plan. Such contributions shall be treated as non-elective employer contributions, and shall be calculated using the product of the following: (i) the number of BLT hours and, (ii) the employee's base hourly rate in effect at the time of the employee's separation, death, or retirement from state service.

If the amount of a projected contribution would exceed the maximum amount allowable under Section 415 of the Internal Revenue Code (when combined with other projected contributions that count against such limit), the State shall first make a contribution to the employee's account within the State of

Michigan 401(k) plan up to the maximum allowed, and then make the additional contribution to the employee's account within the State of Michigan 457 plan.

5. Insurances, Leave Accruals and Service Credits.

Retirement service credits, overtime compensation, longevity compensation, step increases, continuous service hours, holiday pay, shift differential, annual and sick leave accruals will continue as if the employee had received pay for the BLT hours. Premiums, coverage and benefit levels for insurance programs (including LTD) in which the employee is enrolled will not be changed as a result of participation in the Program. Employees shall incur no break in service due to participation in the Program. The Program will not have a negative effect on the Final Average Compensation calculations under the State's Pension Plan.

6. Term.

The Program shall be effective beginning the first pay period in which the new pay rates take effect. The pay reduction and accrual provisions of this Letter of Understanding shall be in effect for 26 pay periods.

Should not fewer than half the employees who are exclusively represented agree to additional BLT for fiscal year 2005 and the Civil Service Commission approves BLT for NERE's, the Association agrees to the number of hours per pay period and the number of pay periods that the majority of employees will be required to take for up to an additional one year (26 pay periods).

LETTER OF AGREEMENT– ARTICLES 8, and 18

The parties agree that the new substantive provisions related to the Discipline Appeal Board in Article 8 and Alternative Work Schedules in Article 18, Part D, shall sunset effective September 30, 2005 or the beginning of the month following the end of the "Banked Leave Time" concession whichever is later, unless mutually extended or modified by the parties. In the event the parties do not mutually extend or modify these provisions, the previous contract language for these items shall be restored.

LETTER OF AGREEMENT– ARTICLES 35 and 36

The parties agree that back pay shall be effective October 1, 2003. However, any employee who retires or enters the Deferred Retirement Option Plan after April 16, 2004 shall have his/her rate of pay effective October 1, 2002 used to compute the final average compensation for the period October 1, 2002 through

September 30, 2003, as if the employee had actually been paid at that rate during that time.